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A Broader Perspective on Social Security Reform

Retirement-Income Security: Reducing the Disincentives for Working in Retirement

Executive Summary

- With Social Security reform as a top priority, President Bush has opened a debate on a critical aspect of a much broader issue – ensuring that Americans can provide adequate income for their retirement.
- At its inception, Social Security was viewed as one leg of a “three-legged stool,” with personal savings and pension benefits making up the vast majority of retirement income. Today, it is the primary source of retirement income for two-thirds of beneficiaries.
- With more Americans choosing to continue working past retirement age in recent years, a new “fourth” leg of that stool has emerged – income from working past retirement age.
- As the baby-boom generation begins to retire over the next decade and is succeeded by a significantly smaller generation, research shows a potential labor shortage of more than 6 million qualified workers by 2012, increasing to 35 million workers by 2030.
- Without the continued participation of older individuals in the workforce, U.S. companies are likely to loose more experienced, skilled employees than they can readily replace, which could have far-reaching effects on productivity and economic growth.
- Significant financial disincentives face older workers considering whether to remain in the workforce, including the two-tier tax imposed on Social Security benefits, which can affect a beneficiary making as little as $13,367 in wages from continued employment, and the Social Security earnings limit, which penalizes many beneficiaries between the ages of 62 and 65 who continue in the workforce.
- Several options exist for Congress to address these disincentives, including:
  - ➢ partial or complete repeal of the tax on an individual’s Social Security benefits.
  - ➢ repeal of the Social Security earnings limit, which can result in an effective tax rate of more than 100 percent in certain cases in which individuals elect early Social Security benefits and choose to remain working.

Introduction

By embracing Social Security reform as a top priority, President Bush opened a debate on a critical aspect of a much broader issue facing this country – ensuring that Americans have adequate income for their retirement.[1]

When the Social Security program was established in 1935, President Roosevelt stressed that the program was intended to be a safety net to protect seniors "against poverty-ridden old age."[2] It was also a benefit that few were expected to receive since the life expectancy at birth for seniors at that time was well below the 65-years-of-age necessary to qualify for Social Security benefits.[3] Accordingly, Social Security at its inception was viewed as one leg of a "three-legged stool," with personal savings and pension benefits expected to make up the vast majority of an individual's income in retirement.[4]

Despite its original intent, Social Security has become the primary source of retirement income for two-thirds of Social Security beneficiaries.[5] By neglecting the other two legs of the stool, individuals relying on Social Security are effectively planning for subsistence-level income on which to live out their retirement years. With a long history of rising standards of living in this country, Congressional policy should not stand in the way of Americans maintaining as high a living standard in retirement as possible.

Ensuring the permanent sustainability of the Social Security system to protect against poverty in retirement is a worthy objective. But in the larger context of assuring income security for Americans in retirement, it is not sufficient. Congress has the opportunity to address the issue of retirement-income security in a comprehensive manner. Based on the Roosevelt-era analogy of the three-legged stool, that effort should include reform of Social Security, but also measures to eliminate barriers to personal savings and other changes to enable employers to strengthen and enlarge the private-pension system.[6]

Now, with more Americans choosing to continue working past retirement age, a new "fourth" leg of that stool has emerged – retirement income from post-retirement-age

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[1]President George W. Bush, Report on the State of the Union Delivered to a Joint Session of Congress, February 2, 2005, *Congressional Record*, p. S878.

[2]Statement of President Franklin D. Roosevelt upon signing the Social Security Act, August 14, 1935.

[3]Center for Disease Control and Prevention, "Estimated Life Expectancy at Birth," National Vital Statistics Reports, Volume 53, Number 6, November 10, 2004.

[4]Social Security Administration (SSA), "Research Note #1: Origins of the Three-Legged Stool Metaphor for Social Security" – http://www.ssa.gov/history/historianoffice.html.

[5]SSA, "Income of the Aged Chartbook, 2001," April 2003, p. 4 – http://www.ssa.gov/policy/docs/chartbooks/income_aged/2001/iac01.pdf. SSA estimates that Social Security benefits provide 50 percent or more of total income for 65 percent of the beneficiaries, 90 percent or more of income for one-third of the beneficiaries, and are the only source of income for 20 percent of beneficiaries.

[6]For a discussion of personal savings and the private-pension system in retirement-income security, see the first three papers in this series, "Retirement-Income Security: The Role of Personal Savings," February 28, 2005 – http://rpc.senate.gov/_files/Feb2805RISavingsMW.pdf; "Retirement-Income Security: Strengthening the Private-Pension System," April 7, 2005 – http://rpc.senate.gov/_files/Apr0705RetIncomeSecMW.pdf; and "Retirement-Income Security: The Status of Hybrid-Pension Plans," April 25, 2005 – http://rpc.senate.gov/_files/Apr2505RetIncomeSecMW.pdf.

employment. This paper – the fourth in a series – examines the financial disincentives facing these older workers and suggests options for reducing them.

More Americans Working Past Retirement Age

In recent years, the trend of older Americans working after becoming eligible for retirement continues to rise. For example, as illustrated in Figure 1, the labor-participation rate among women age 62 to 64 has increased from 28.7 percent in 1985 to 38.7 percent in 2004.[7] Similarly, Figure 2 illustrates the participation rate of women age 65 and older, which has risen from 7.3 percent to 11.1 percent over the same period.[8] A comparable trend exists among men.

Figure 1

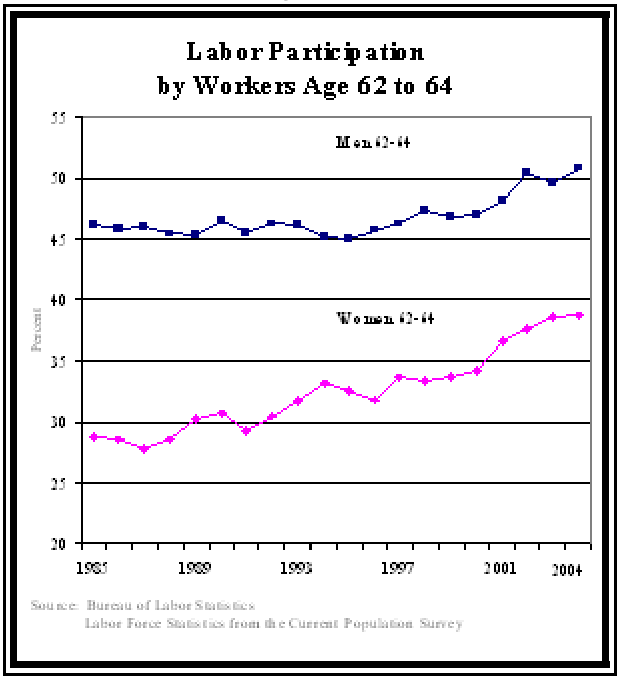
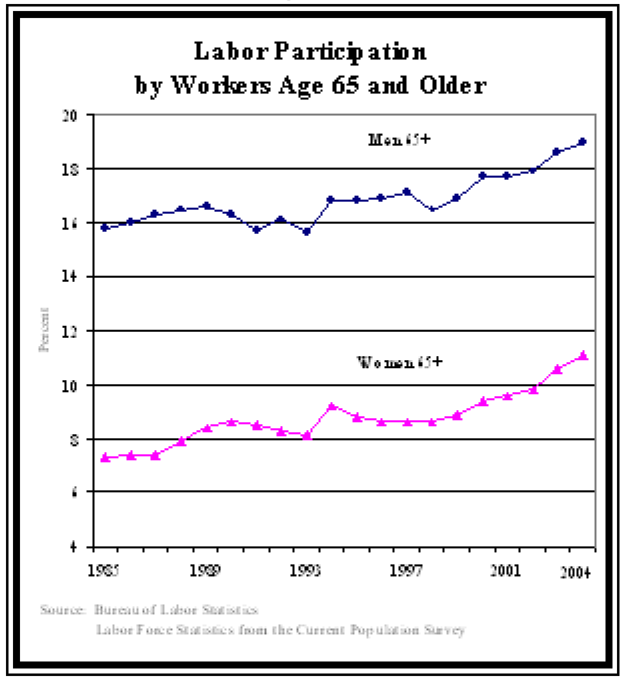


Figure 2



Older workers give a variety of reasons for wanting to continue working after reaching retirement age. In addition to financial considerations, a majority cite the desire to remain active and productive citizens as a leading motivation for remaining in the workforce.[9]

[7]Bureau of Labor Statistics (BLS), Labor Force Statistics from the Current Population Survey, 1985-2004 – http://www.bls.gov/data/home.htm. The labor-participation rate among men age 62 to 64 has also shown an increase from 46.1 percent in 1985 to 50.8 percent in 2004.

[8]BLS, Labor Force Statistics from the Current Population Survey. The labor-participation rate among men age 65 and older has increased from 15.8 percent in 1985 to 19 percent in 2004.

[9]See Ruth Helman, Dallas Salisbury, and Craig Copeland, "Encouraging Workers to Save: The 2005 Retirement Confidence Survey," Employee Benefit Research Institute, *Issue Brief* No. 280, April 2005, p. 25 – http://www.ebri.org/ ibpdfs/0405ib.pdf; S. Kathi Brown, "Attitudes of Individuals 50 and Older Toward Phased Retirement," American Association of Retired Persons Research Report, March 2005, p. 7 – http://assets.aarp.org/ rgcenter/post-import/phased_ret.pdf; and Barbara D. Bovbjerg, Director of Education, Workforce, and Income Security, Government Accountability Office, in testimony before the Senate Special Committee on Aging, April 27, 2005, pp. 10-11 – http://www.gao.gov/new.items/d05620t.pdf.

From a broader economic perspective, this senior segment of the labor force is becoming increasingly important. Over the next two decades, the labor force in this country will begin seeing a dramatic shift as the baby-boom generation begins to retire and is succeeded by a generation that is significantly smaller in size.[10] According to research by the Employment Policy Foundation (EPF), 51 percent of the workforce was *over* age 40 (67.5 million workers) in 2002, many of which are expected to retire over the next 20 years.[11] In contrast, the number of workers *under* the age of 40 in 2002 (64.6 million) will be insufficient to fill the job openings created as older workers retire. As a result, EPF's projections show that by 2012, a labor shortage of more than 6 million qualified workers will occur, and by 2030, this shortage is expected to increase to 35 million workers.

For many employers, this pending demographic shift threatens to result in the loss of experienced, skilled employees, if older workers choose retirement over continued employment. The resulting "brain drain" could have far-reaching effects on productivity and economic growth in U.S. industries if older workers leave the workforce entirely.[12]

Despite the desire of many retirement-eligible employees to continue working and the potential benefits that their continued participation in the labor force holds for the economy, various features of the tax code and the Social Security program create significant barriers for older individuals to achieve their goal of staying on the job.

Social Security Benefits and the Incentive to Work

Whether retirement-eligible individuals intend to work full- or part-time, two of the most significant disincentives they face when considering whether to remain in the workforce are the tax imposed on Social Security benefits and the Social Security earnings limit.

Taxing Social Security Benefits

Under current law, Social Security beneficiaries are subject to two tiers of taxation on their benefits if their income exceeds certain thresholds. For purposes of determining the thresholds, income consists of three components: (1) adjusted gross income (e.g., wages, dividends, taxable distributions from pensions and Individual Retirement Accounts), (2) one-half of Social Security benefits, and (3) income from tax-exempt bonds.[13]

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[10] Brown, p. 5.

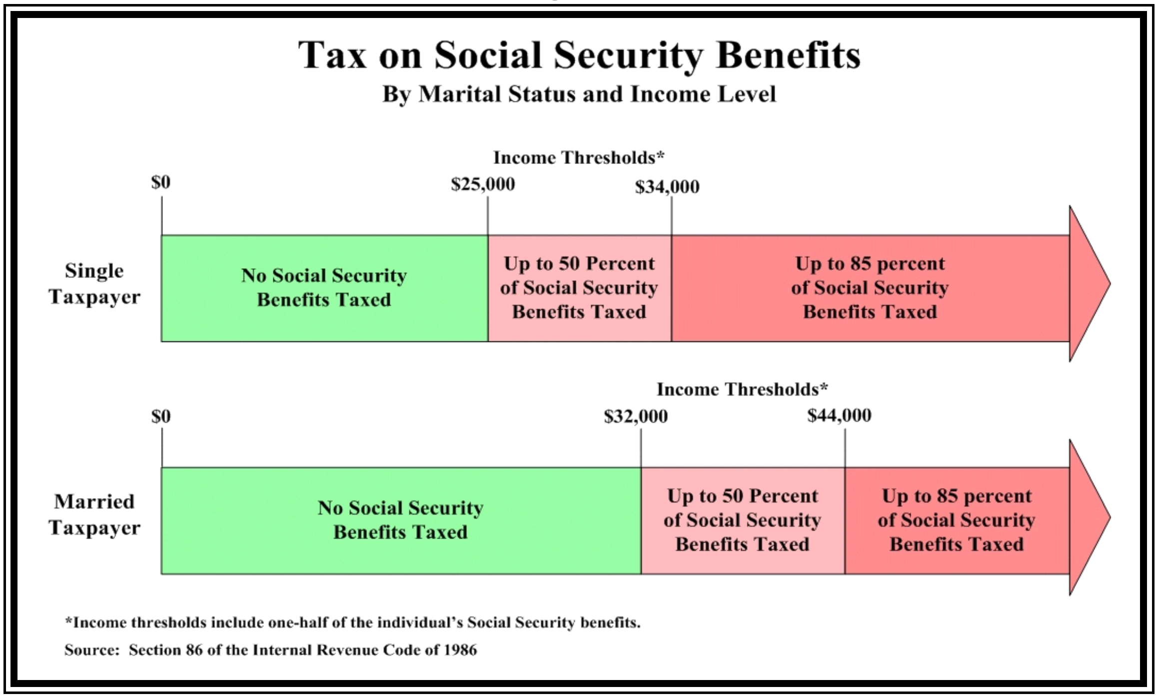
[11] Employment Policy Foundation, "Phased Retirement: Its Time has Come," *The Balancing Act*, April 15, 2003, pp. 1-2 – http://www.epf.org/ pubs/newsletters/2003/ba20030415.pdf; see also, Bovbjerg, pp. 4-9.

[12] Bovbjerg, p. 7. For their part, many employers have started implementing "phased retirement" programs that allow older employees to gradually reduce their workload as they reach retirement age. See EPF, "Phased Retirement: Its Time has Come." The Internal Revenue Service (IRS) has also issued proposed regulations on phased-retirement to address the related pension issues. 69 *Federal Register* 65108, November 10, 2004.

[13] Section 86(b) of the Internal Revenue Code (IRC) of 1986 (26 U.S.C. § 86(b)).

As illustrated in Figure 3, single individuals with income above $25,000 (including one-half of their Social Security benefits) are subject to tax on up to 50 percent of their Social Security benefits. Furthermore, to the extent that their income exceeds $34,000 per year, up to 85 percent of their benefits are taxable.

Figure 3



As a result, in 2005 a 65-year-old individual receiving maximum Social Security benefits who earns as little as $13,367 in wages from continuing in the workforce will exceed the first threshold, and his Social Security benefits will begin to be taxed (up to maximum of one-half of his benefits).[14] And, to the extent that the individual has non-wage income, such as pension distributions, dividends, or interest on tax-exempt bonds, the amount of wages he can earn without triggering the tax on Social Security benefits declines dollar for dollar.

Thus, earning an extra dollar in wages boosts his taxable income by $1.50 – one dollar of wages plus one-half of each benefit dollar above the first threshold – which translates into an effective marginal tax rate on that extra dollar of 22.5 percent, assuming he is in the 15-percent tax bracket.[15] Additionally, the individual continues to pay Social Security, Medicare, and state income taxes on his wages,[16] which increases the overall tax burden even further.

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[14] The maximum Social Security benefit for 2005 of $23,268. SSA, "Program Highlights, 2004-2005," – http://www.ssa.gov/policy/docs/quickfacts/prog_highlights/index.html. One half of such benefits ($11,634) plus wages of $13,367, exceeds the 50-percent threshold for single taxpayers by $1.

[15] One dollar of wages plus 50 cents of taxable Social Security benefits equals $1.50 of taxable income. At the 15-percent tax rate, such income creates a tax liability of 22.5 cents. Thus, the dollar earned results in an effective tax rate of 22.5 percent (i.e., $0.225/$1.00 = 0.225 or 22.5 percent).

[16] Workers pay 6.2 percent in Social Security tax (i.e., FICA) on wages up to $90,000 in 2005; employers are responsible for a matching tax payment. IRC §§ 3101 and 3111.

To the extent that a 65-year-old individual earns more than $22,367, she triggers the second-tier tax, subjecting up to 85 percent of her Social Security benefits to tax.[17] In terms of tax rates, this second-tier tax can result in an effective tax rate as high as 46.25 percent, assuming the beneficiary is in the 25-percent tax bracket.[18] At the extreme, with the maximum statutory income-tax rate currently at 35 percent, *a Social Security beneficiary who chooses to keep working may face a greater effective tax rate on Social Security benefits than the highest-earning Americans endure on their regular income.*

The tax on Social Security benefits for married couples is even more onerous because of the inherent marriage penalty in the tax. As illustrated in Figure 3 (on page 5), the income thresholds for married couples are not double the level applicable to single persons – in fact, they are less than 130 percent of the threshold for singles.

Furthermore, the income thresholds for both single and married beneficiaries affected by the tax on Social Security benefits are not adjusted for inflation or wage growth. Accordingly, every year a greater number of Social Security beneficiaries are burdened with the tax simply because inflation erodes the income thresholds.[19] As a result, recent data indicate that 43 percent of beneficiaries with income between $30,000 and $40,000 (including one-half of their Social Security benefits) are subject to income taxes.[20] And, 92 percent of those with income between $40,000 and $50,000, are subject to tax. Such income levels can hardly be associated with the wealthiest of Americans.

Social Security Earnings Limit

For individuals who elect to receive early Social Security benefits at age 62, current law discourages their continued participation in the workforce even more. On top of their benefits being subject to taxation, individuals who choose to continue working are subject to the Social Security "earnings limit."[21]

As illustrated in Figure 4 (on page 7), the earnings limit reduces Social Security benefits by $1 for every $2 of earnings above $12,000 (in 2005) between age 62 and the year before the beneficiary reaches full-retirement age (currently 65).[22] In the year in which they reach full-retirement age, their benefits are reduced by $1 for every $3 of earnings above an income

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[17]Assuming the maximum Social Security benefit for 2005 of $23,268, one half of such benefits ($11,634) plus wages of $22,367, exceeds the 85-percent threshold for single taxpayers by $1.

[18]At the 85-percent limit, one dollar of wages plus 85 cents of taxable Social Security benefits equals $1.85 of taxable income. At the 25-percent tax rate, such income creates a tax liability of 46.25 cents. Thus, the dollar earned results in an effective tax rate of 46.25 percent (i.e., $0.4625/$1.00 = 0.4625). For 2005, the 25-percent tax bracket for a single taxpayer covers taxable income from $29,700 to $71,950. IRS, "Estimated Tax for Individuals," Form 1040-ES, 2005 Tax Rate Schedules, p. 5 – http://www.irs.gov/pub/irs-pdf/f1040ese.pdf.

[19]Leonard E. Burman and Mohammad Adeel Saleem, "Taxable Social Security Benefits," *Tax Notes*, May 7, 2004, p. 747.

[20]Christine Scott, "Social Security: Calculation and History of Taxing Benefits," *Congressional Research Service Report for Congress*, RL32552, January 14, 2005, p. 10 – http://www.congress.gov/erp/rl/pdf/RL32552.pdf.

[21]The earnings limit only applies to earned income. Accordingly, income from pensions, IRAs, annuities, and investments are not included. Section 203 of the Social Security Act (SSA) (42 U.S.C. § 403).

[22]SSA § 203.

threshold of $31,800 (in 2005) for each month from January of that year until their birth month. Once a beneficiary reaches full-retirement age, the earnings limit no longer applies.[23]

Figure 4

Social Security Earnings Limit		
Applicable Period	2005 Exemption Amount	Social Security Benefits Reduction
Years before the year in which the worker reaches full retirement age (e.g., ages 62 through 64)	$12,000	50 Percent
Partial year in which the worker reaches full retirement age (e.g., age 65)	$31,800	33.3 Percent
Source: Social Security Administration		

If benefits are reduced by the earnings limit, the beneficiary receives credit for them once he reaches full-retirement age (currently 65 years old). At that point, his Social Security benefits are recomputed to take into account the prior reductions.[24]

Together with the taxation of Social Security benefits, the earnings limit can result in an effective tax rate of more than 100 percent in certain cases when the loss of benefits is viewed in concert with federal and state income taxes on both earnings and Social Security benefits as well as payroll taxes.[25] As one commentator has noted: "These tax rates in excess of 100 percent are a virtual federal edict that older workers should drop out of the labor force."[26]

For employers, this creates a major impediment to retaining critical senior employees. Recent data indicate that more than half of workers elect to begin receiving Social Security benefits at age 62. However, the Social Security earnings limit and the tax on Social Security benefits create an enormous disincentive for individuals between the ages of 62 and 65 to remain on the job – and this window widens as the full-retirement age increases gradually to 67 years old by 2027. Yet, at age 65, the earnings limit is eliminated, and the disincentive is reduced, especially for part-time employment that limits the tax on Social Security benefits. Nevertheless, an employer can hardly hold a position open for three years – especially a high-level one – waiting for it to be economically practical for the senior employee to return. In short, these two

[23]The Senior Citizens' Freedom to Work Act, enacted in 2000, eliminated the earnings limit for Social Security beneficiaries once they reach full retirement age under the program. Public Law 106-182.

[24]Debra Whitman, "Social Security: Proposed Changes to the Earnings Test," *Congressional Research Service Report for Congress*, 98-789 EPW, March 10, 2005, p. 5 – http://www.congress.gov/erp/rs/pdf/98-789.pdf.

[25]Stephen J. Entin, "Reducing the Social Security Benefits Tax," National Center for Policy Analysis, *Brief Analysis* No. 332, August 10, 2000, p. 4 – http://www.ncpa.org/ba/ba332/ba332.html; Daniel J. Mitchell, Ph.D., "Protecting Seniors from Double Taxation," Heritage Foundation, *Backgrounder* No. 1631, March 5, 2003, p. 4 – http://www.heritage.org/Research/Taxes/loader.cfm?url=/commonspot/security/getfile.cfm&PageID=37446.

[26]Entin, p. 4.

statutory disincentives work to the detriment of both the Americans who would otherwise choose to remain in the workforce and the employers that increasingly need to retain senior, skilled employees to ensure the ongoing success of the business.

Reducing the Disincentive to Work

Several options exist for Congress to reduce the statutory disincentives facing older Americans who choose to stay in the workforce.

Reduce or Eliminate the Tax on Social Security Benefits

First, the tax on Social Security benefits could be eliminated in full or in part. For the first 40 years of the Social Security system, benefits paid to retirees were not subject to tax.[27] As part of the 1983 Social Security Act amendments, however, the tax code was revised to subject up to 50 percent of Social Security benefits to income taxation.[28] In 1993, with the deciding vote of then-Vice President Gore, a second-tier tax was added, increasing to 85 percent the maximum amount of Social Security benefits that can be subject to tax.[29]

The 1983 change was predicated on the rationale that the employer's share of Social Security taxes are deductible, while the employee's contributions are paid out of after-tax earnings.[30] Accordingly, taxing up to 50 percent of the benefits makes up for the absence of tax on employer contributions. That justification is weakened by the fact that the tax only applies to individuals with income above the thresholds – and so, in effect, the first-tier tax is an indirect means test for Social Security benefits.[31]

The second tier tax was part of the Clinton Administration's so-called "deficit reduction" package in 1993.[32] It is sometimes justified as an effort to equate the taxation of Social Security benefits with private pensions, based on the assumption that roughly 85 percent of private pension distributions represent a return of pre-tax contributions.[33] However, as noted above, the employee's share of Social Security taxes are paid in after-tax dollars. Accordingly, the second-tier tax effectively double taxes that same income, undercutting the rationale for it.[34]

The effect of the two-tier tax has been significant. When originally imposed, the first-tier tax on Social Security benefits affected less than 10 percent of beneficiaries.[35] By the time of the

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[27] SSA, "Research Note #12: Taxation of Social Security Benefits" – http://www.ssa.gov/history/historianoffice.html.

[28] Social Security Amendments of 1983, Public Law 98-21, § 121. This statute established section 86 of the Internal Revenue Code (26 U.S.C. § 86).

[29] Omnibus Budget Reconciliation Act of 1993, Public Law 103-66, § 13215.

[30] Congressional Budget Office (CBO), "An Analysis of Alternatives for Taxing Social Security as a Private Pension," Staff Working Paper, June 1985, pp. 7-8 – http://www.cbo.gov/ftpdocs/59xx/doc5977/doc16a.pdf.

[31] SSA, "Research Note #12."

[32] Gene Steuerle, "Taxing Social Security Benefits," *Tax Notes Today*, 93 TNT 101-83, May 3, 1993.

[33] CBO, pp. 4-7; Steuerle.

[34] Mitchell, p. 2.

[35] SSA, "Research Note #12."

1993 addition of the second-tier tax, that percentage had grown to nearly 20 percent, and it has nearly doubled since then.[36] In large measure, the growing impact of this tax is the result of the income thresholds, which have not kept pace with inflation.[37]

To address the burden that the tax on Social Security benefits creates as well as the resulting disincentive for older Americans to work, Congress could take one or more of the following actions. First, Congress could repeal the second-tier tax on up to 85 percent of Social Security benefits since it amounts to double taxation of earned income. In fact, the Senate approved two amendments to the Fiscal Year 2006 budget resolution supporting such action.[38]

Second, Congress could eliminate the tax altogether. That change would conform the federal tax law to that of a majority of the states, which do not tax Social Security benefits, and it would remove entirely a primary disincentive for retirement-eligible Americans to continue working if they so choose.[39] If any part of the tax is to remain, however, Congress should adjust the income thresholds to account for inflation over the past 20 years and index them going forward to avoid taxing low-income beneficiaries simply because the tax has not kept pace with the growth in prices.

The primary obstacle to these options is the revenue impact. According to the most recent data available from the Treasury Department, the tax on Social Security benefits – both tiers – generated $99 billion of revenues in 2003, more than 21 percent of total Social Security benefits paid.[40] The revenues from the first-tier tax are ostensibly dedicated to the Social Security Trust Fund, and those from the second-tier tax to the hospital-insurance trust fund under the Medicare system.[41]

Accordingly, Congress should address the repeal of the second tier or the tax altogether in the context of restoring the financial solvency of the Social Security and Medicare programs. It is also important to recognize that the repeal of part or all of the tax on Social Security benefits likely will have a dynamic economic effect. As with the earnings limit discussed above, reducing the disincentives for older Americans to remain in the workforce will enable them to continue

[36] SSA, "Research Note #12"; Scott, p. 10.

[37] Burman and Saleem, p. 747.

[38] See Amendment 241, offered by Senator Bunning, *Congressional Record*, p. S2933, Vote Number 74 (55 to 45), March 17, 2005; and Amendment 243 (Sense of the Senate), offered by Senator Conrad, *Congressional Record*, p. S2932, Vote Number 73 (94 to 6), March 17, 2005. While the Bunning amendment proposed to use an increased amount in the revenue-reconciliation instruction for the repeal of the second-tier tax, there is no specific requirement that the Finance Committee include such a provision in this year's $70 billion reconciliation bill, which is expected to address a variety of expiring tax provisions. The Conrad Sense-of-the Senate amendment, which would have put Congress on record as calling for the repeal of the second-tier tax as part of revenue reductions assumed in the resolution, was dropped in conference. "Concurrent Resolution on the Budget for Fiscal Year 2006," House Report 109-62, 109th Congress, 1st Session, April 28, 2005.

[39] Scott, p. 9. In 2003, 28 of the 42 states (plus the District of Columbia) with a personal income tax did not subject Social Security benefits to tax. The other 14 states tax all or part of such benefits.

[40] Internal Revenue Service, "Individual Income Tax Returns, Preliminary Data, 2003," *Statistics of Income Bulletin*, Volume 24, Number 3, Winter 2004-2005, p. 10; SSA, "Social Security and Medicare Benefits," Actuarial Publications, updated February 11, 2005 – http://www.ssa.gov/OACT/STATS/table4a4.html.

[41] Omnibus Budget Reconciliation Act of 1993; SSA, "Research Note #12."

paying income taxes and Social Security taxes on their wages, while also benefitting the economy more broadly through the success of the businesses employing them.[42]

Social Security Earnings Limit

Second, the earnings limit could be repealed completely. As noted earlier, Congress has eliminated the earnings limit for Social Security beneficiaries who are full-retirement age and older (currently 65 years old) in 2000.[43] That change was based on the recognition that the test unfairly discourages retirement-eligible individuals from continuing to work, creates an extreme effective tax rate on affected wage earners, and adversely affects the economy by dissuading older workers from remaining in the workforce.[44]

Today, the same rationale continues to exist for eliminating the earnings limit with respect to Americans who are eligible for early Social Security benefits. And, the forthcoming retirement of the baby-boom generation creates a growing need for employers to retain older workers to avoid future labor shortages.

While the argument that it is too costly to eliminate the earnings limit undoubtedly will be raised, Congress should avoid focusing only on the short-range cost, for the long-range costs are quite different. Under current law, individuals who elect early Social Security benefits in 2005 (i.e., at age 62), receive 75 percent of their full-retirement benefit.[45] As noted above, if benefits are reduced under the earnings limit, the beneficiary receives credit for them once he reaches full-retirement age (i.e., at age 65 currently), when his Social Security benefit is recalculated to take into account the prior reductions. As a result, "the long-range cost [to the government] of eliminating the earnings test for those below the full retirement age would be almost entirely offset by the savings produced by eliminating the recomputation of benefits at the full retirement age."[46]

Moreover, the government will benefit by removing the disincentive for retirement-eligible Americans to continue working. While these individuals remain in the workforce, they continue paying income taxes and Social Security taxes on their wages.[47] They also contribute to the continued economic success of their employer, which adds to government revenues as well.

Conclusion

With Social Security reform as a national priority, Congress has an important opportunity to take a broader view. By addressing the issue of retirement-income security for Americans,

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[42]Whitman, pp. 4-5; Entin, p. 4.

[43]See footnote 23 and accompanying text.

[44]Whitman, pp. 4-5.

[45]SSA, "Benefit Reduction for Early Retirement," updated February 15, 2005 – http://www.ssa.gov/OACT/quickcalc/earlyretire.html.

[46]Whitman, p. 5.

[47]Whitman, pp. 4-5.

Congress can work toward comprehensive solutions, including the elimination of barriers for Americans who choose to continue working after they are eligible for retirement.

The Social Security earnings limit and the two-tier tax on benefits create enormous disincentives for retirement-age workers to continue participating in the workforce. Left unresolved, these disincentives are likely to strain American businesses over the next decade as the retirement of the baby-boom generation threatens to create a labor shortage. To avoid that outcome and help Americans secure their retirement income, Congressional policy should give retirement-age workers the freedom to continue participating in the workforce and contributing to the nation's economy.